DAYTON HUDSON CORPORATION

1989 ANNUAL REPO

CORPORATE PROFILE

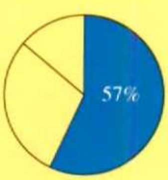
Dayton Hudson Corporation is a growth company focusing exclusively on retailing. As one of America's largest retailers, our strategy is to provide consumers with exceptional value through multiple, large-scale retail formats. At year-end, we operated 657 stores in 33 states.

TARGET

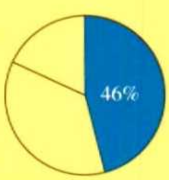
Target is an upscale discount store chain operating 399 stores in 31 states, coast to coast. Target offers low prices on a broad assortment of high-quality fashion and basic hardlines and softgoods in easy-to-shop, assisted self-service stores.

(Millions of Dollars)	1989	1988	1987
Revenues	**$7,519**	$6,331	$5,306
Operating Profit*	**$ 449**	$ 341	$ 323
Stores	**399**	341	317
Retail Square Feet (000)**	**39,994**	34,189	31,618

Percent of Total Revenues***



Percent of Total Operating Profit*

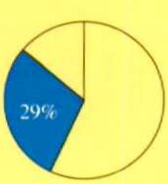


MERVYN'S

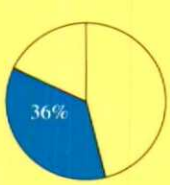
Mervyn's is a moderate-priced department store company specializing in nationally branded and top-quality private label active and casual apparel. The company operates 221 stores in 15 states. Mervyn's stores provide customers with value, fashion and convenience.

(Millions of Dollars)	1989	1988	1987
Revenues	**$3,858**	$3,411	$3,183
Operating Profit*	**$ 358**	$ 256	$ 150
Stores	**221**	213	199
Retail Square Feet (000)**	**17,486**	16,776	15,727

Percent of Total Revenues***



Percent of Total Operating Profit*



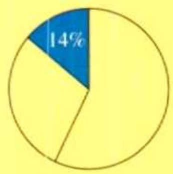
*Operating profit is LIFO earnings from operations before corporate expense, interest and income taxes.
**Total square feet less office, warehouse and vacant space.
***Excludes Lechmere.

DAYTON HUDSON DEPARTMENT STORE COMPANY (DHDSC)

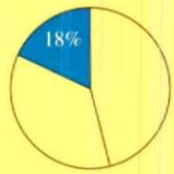
Dayton Hudson Department Store Company (DHDSC) emphasizes fashion leadership, quality moderate to better merchandise, broad selections and superior customer service. It currently operates 37 Hudson's and Dayton's stores in 7 states.

(Millions of Dollars)	1989	1988	1987
Revenues	**$1,801**	$1,693	$1,552
Operating Profit*	**$ 179**	$ 159	$ 122
Stores	**37**	37	37
Retail Square Feet (000)**	**7,711**	7,631	7,683

Percent of Total Revenues***



Percent of Total Operating Profit*



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ABOUT THE COVER

Meeting customers' expectations is one of our primary strategies for prospering in the 1990s, and Target is "Right on the Money". Each store offers dominant assortments of basic hard and soft goods and trend-right items at discount prices. Attractive, well-signed presentations are near wide aisles in a clean, well-lighted store. Bar-code scanning at check out makes the shopping experience more convenient.

FINANCIAL HIGHLIGHTS

(Millions of Dollars, Except Per-Share Data)	1989	1988	Percent Increase
For the Year:			
Revenues	**$13,644**	$12,204	12%
Net earnings	**410**	287	43
Fully diluted earnings per share	**5.35**	3.45	55
Cash dividends declared per common share	**$ 1.17**	$ 1.04½	12
At Year-End:			
Common shares outstanding	**70,874,000**	77,649,000	
Number of shareholders	**13,231**	15,171	
Retail square feet	**65,191,000**	58,596,000	
Number of stores	**657**	591	

REVENUES*
(Millions of Dollars)

Our three operating companies achieved strong comparable-store revenue increases in 1989. Target generated a major portion of the total revenue growth.

NET EARNINGS*
(Millions of Dollars)

Each operating company contributed record performances to 1989 consolidated net earnings.

FULLY DILUTED EARNINGS PER SHARE*

With the 55% increase in 1989 earnings per share, we have achieved a five-year compound growth rate in earnings per share of 16%.

THE YEAR IN REVIEW

- Revenues of $13.6 billion for the 53 weeks rose 12% from the 52 weeks of 1988.
- Fully diluted earnings per share were $5.35, up 55% from 1988.
- Target became a coast-to-coast retailer in 1989 by opening 31 stores in the Southeast and 29 locations elsewhere. Target produced its 15th consecutive year of record operating profit through stronger sales, better expense control and improved gross margin.
- Mervyn's operating profit continued to improve due to good trend merchandising and expense control. Mervyn's opened 9 new stores and relocated 2 stores during its 40th year.
- DHDSC improved operating profit as comparable-store revenues for the 53 weeks rose 6%, margin increased and expense management improved.
- We focused on our primary large-scale retail formats by selling the Lechmere hardlines stores.
- The Corporation adopted an Employee Stock Ownership Plan (ESOP), which was established in January 1990. The plan was funded by purchasing 438,353 shares of convertible preferred stock.
- We repurchased 7 million shares of common stock.
- We made capital investments of $622 million in 1989 and will invest about $700 million in 1990.

*Continuing operations.

At right: Kenneth A. Macke, Chairman and Chief Executive Officer
At left: Stephen E. Watson, President

Dayton Hudson had an outstanding 1989. The Corporation set all-time records in sales and earnings and each of our operating units – Target, Mervyn's and Dayton Hudson Department Store Company – also set new performance records.

But let's leave numbers aside for the moment. When a retailer has a superb year, especially when many in the industry are finding the going rough, it's important to ask: What are we doing right? And how will we keep doing it?

At Dayton Hudson the answers are both simple and complex. Simply put, our success stems from our devotion to the fundamentals of the business.

To us, this means listening to our customers, making smart merchandising decisions and pursuing innovative selling concepts. It means making sure our stores are stocked with the right goods at the right time. It means having our sales people eager to serve our customers.

Call it execution; call it awareness; call it long-term planning that anticipates what the American consumer wants; call it meeting the needs of the marketplace. We call it paying attention to the basics. We are doing well because we are getting better at anticipating how customer needs are changing, and we are working hard to respond.

A large piece of retailing takes place before the merchandise reaches the stores. We have spent considerable time and money developing state-of-the-art technologies for product ordering, coding and distribution, so that we can offer fresh merchandise on a timely basis. This is the heart of our customer service and part of what makes us efficient on the selling floor.

But retailing is far more than "hardware" and systems. Success in our business also is built on people doing their jobs better every day in order to satisfy the expectations of our customers and our communities. So the more complex reason why we are doing well has to do with some intangibles: people, motivation, training and leadership. We have a top-notch and clearly focused management team. The latest change in this outstanding group is the election of Stephen E. Watson as president of the Corporation following the retirement of Bruce G. Allbright in January.

We also have a dedicated and creative employee group. We believe our people flourish because we encourage them to think both as shareholders and as retailers. Each of our Dayton Hudson companies has a formal employee development program that helps people be more productive and trains them for long-term careers in the business. This is a commitment to the future–an obligation about which management feels very strongly.

We also have worked to improve the compensation programs at each of our operating companies. And we have implemented an employee stock ownership plan that will give each of our retirement plan participants a stake in Dayton Hudson's performance.

Similarly, we believe we must continue to take a leadership role in the communities we serve. Dayton Hudson philanthropic dollars, along with the time and resources of our employees, are invested in an impressive variety of cultural and humanitarian causes. Last Fall, we were honored to receive both the National Medal of Arts Award and a Presidential Award for Private Sector Initiative–rare and deeply appreciated tributes to our corporation's tradition of community involvement.

In addition, we continue to take initiatives in the area of corporate governance. These are described in more detail elsewhere on this page. We are fortunate to have an independent Board of Directors that is strong and challenging.

I am convinced that Dayton Hudson will retain its leadership position in the retailing industry. As businesses throughout the United States try to cope with a world of accelerating change, where the speed of global communication and events affects both consumers and merchants as never before, we are prepared. We view change as a positive force. For those with the management and merchandising skills to deliver the goods, today's environment can only mean opportunity.

We believe our companies are structured to achieve sustained growth from improved productivity at existing stores, from the maturity of stores recently opened and from the investment in new stores, distribution centers and systems. We expect our growth in the coming years will be consistent, with all three of our companies contributing to that growth.

At Dayton Hudson, the prescription for our future can be summarized in four basic strategies:

- Delivering Consistent Performance
- Anticipating Customers' Changing Needs
- Managing for the Long Term
- Being a Responsible Corporation

You will read more about these strategies in the report which follows.

By having a long-term planning process that addresses how our customers are changing, we are better able to execute our strategies to achieve solid short-term results and build for the future. We are convinced this approach is creating value today–and for tomorrow–on behalf of all of Dayton Hudson's constituencies.

Sincerely,

Kenneth A. Macke

Kenneth A. Macke
Chairman of the Board and
Chief Executive Officer
March 28, 1990

CORPORATE GOVERNANCE HIGHLIGHTS

We have long been committed to a leadership role in corporate governance. We reaffirmed that commitment in 1989 by taking these and other steps on behalf of all stakeholders.

- **Shareholders may now request on their proxy materials that their votes be kept in confidence until after the annual meeting.**
- **Our board remains heavily independent. Eleven of the 13 members, all of whom have outstanding credentials, are outside directors. They nominate candidates for the board and conduct the annual review of the chief executive.**
- **The board has strongly encouraged those who manage DHC employees' pension assets to forgo investing in funds whose principal purpose is to put companies "in play" and refrain from tendering shares or selling investments in any company in play until that company's board has had an opportunity to respond to the tender. The board believes it is appropriate for pension fund managers to consider, among other things, the long-term value of a company in deciding how to act in case of an unsolicited bid.**

Delivering Consistent Performance

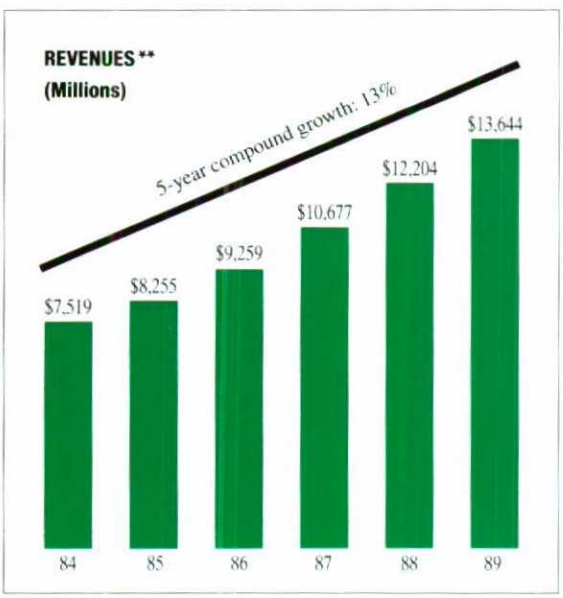
Target adds fun and excitement to shopping by offering customers promotions featuring exclusive merchandise that's fun for the whole family. Throughout 1990, Target will offer a variety of exclusive items featuring those ever-popular chipmunks — Alvin, Simon and Theodore.

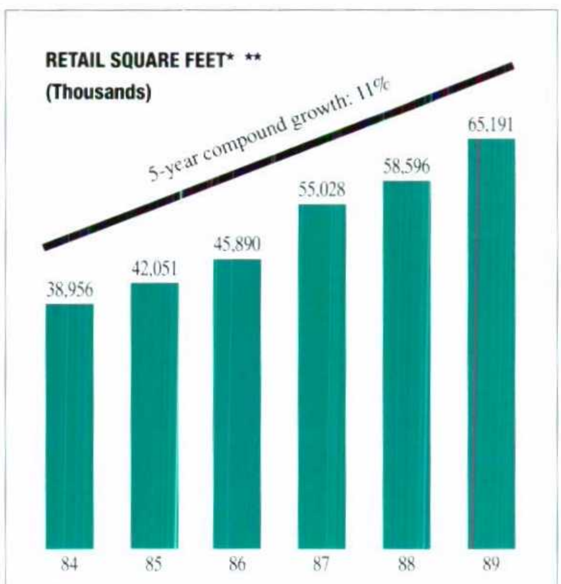
Our goal is to make our company a premier investment. We aim to increase dividends, earnings and our share value so that, over time, shareholders receive a superior return on their investment.

To achieve this, we must produce superior financial performance. The most important financial measure we use to guide decisions is return on investment (ROI). ROI is the ratio of net earnings (before financing costs) to total investment. It describes operating profitability per investment dollar.

While a high ROI might be considered better than a low ROI, investment in new stores lowers near term ROI because immature stores have significant start-up costs and lower sales productivity. As stores mature, however, their profitability and ROI increase, generating income growth. We continue to invest in new projects despite the lower ROI expectations for the near term because we believe it will increase shareholder value.

We believe our companies are structured to achieve sustained growth from improved productivity at existing stores, from the maturing of recent openings and from investment in new stores and related facilities. We believe our present operating strategies and





*Excludes Lechmere.

growth plans will enable us to achieve our objective of 15 percent average annual earnings per share growth. We also believe earnings growth will be fairly consistent and that all three companies will contribute to that growth.

Since 1984, revenues have risen at a 13 percent compound annual growth. Approximately two-thirds of this revenue increase is due to new store growth. Our expansion plans for 1990 include adding approximately 2.8 million square feet of new retail space. With this addition, 43 percent of our retail space will have opened since 1984.

Operating profit has risen at a compound annual rate of 12 percent since 1984. Ongoing store expansion and improved profitability at existing stores

We believe our efforts to achieve growth through improved current operations and store expansion reward shareholders today and over the long term.

should continue to enhance our operating performance.

Earnings per share have increased at a compound annual rate of 16 percent since 1984. Our return on

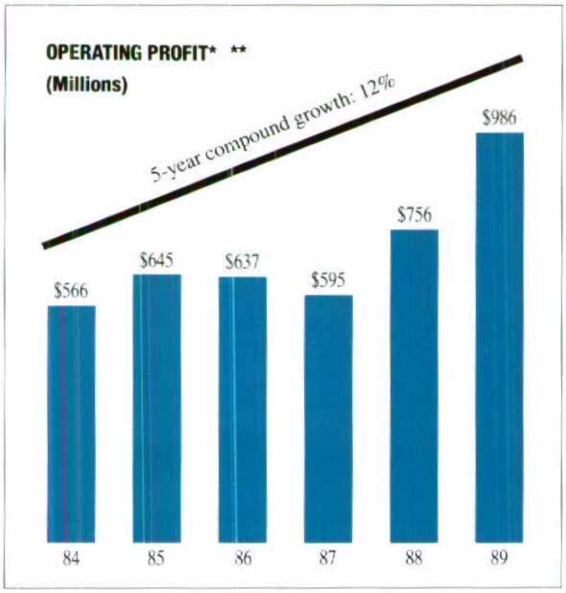
equity from continuing operations, which represents earnings as a percent of common shareholders' investment, has improved from 15.9 percent in 1984 to 22 percent in 1989. This improvement is primarily due to earnings growth. It also reflects our increased use of debt to fuel Target's rapid expansion and to fund our share repurchases.

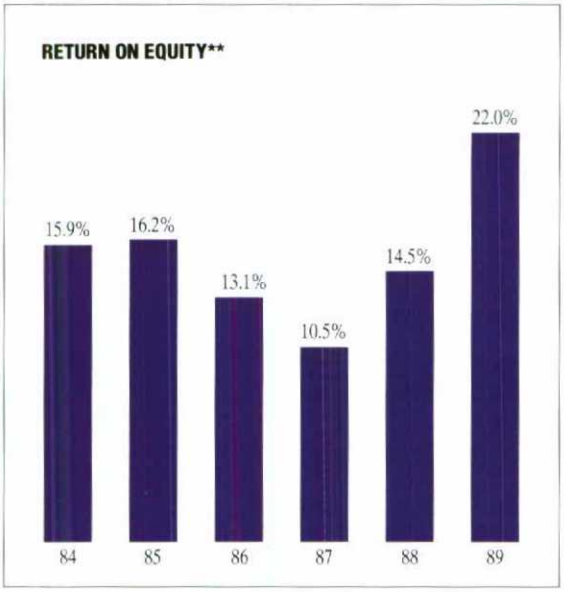
We have increased dividends regularly since 1972. Dividends paid have grown at a compound annual rate of 11 percent during the past five years.

We believe our efforts to achieve growth through improved current operations and store expansion reward shareholders today and over the long term.

DAYTON HUDSON CORPORATION OPERATING COMMITTEE

Seated, left to right:
Stephen E. Watson, President, Dayton Hudson Corporation
Kenneth A. Macke, Chairman and CEO, Dayton Hudson Corporation
Robert J. Ulrich, Chairman and CEO, Target
Standing, left to right:
James T. Hale, Senior Vice President, Secretary and General Counsel, Dayton Hudson Corporation
Marvin W. Goldstein, Chairman and CEO, Dayton Hudson Department Store Company
Walter T. Rossi, Chairman and CEO, Mervyn's
Willard C. Shull, III, Senior Vice President and Chief Financial Officer, Dayton Hudson Corporation





**Continuing Operations.

Anticipating Customers' Changing Needs

The pace of change in retailing is accelerating. To succeed, we must understand and anticipate customers' ever-changing needs. As important, we must work to fulfill–even exceed–their expectations each time customers visit our stores.

Needs and responses vary among our three retail formats. Even so, each operating company shapes its offering to provide customers with what they expect from the shopping experience: value, quality merchandise, appropriate pricing, comfort, convenience, desired merchandise selection, helpful and courteous service and sufficient merchandise information.

Here are some highlights from each operating company's on-going efforts.

TARGET

Target carefully plans and executes what it does best: deliver the right hardlines and softgoods–including trend-right branded and private label items–at the right price, in a clean, fun, friendly and convenient environment.

■ Target has implemented the "Power to Please" program, which prepares and empowers employees to satisfy customer concerns directly, from providing directions to offering "No Hassle" returns. During 1989, selected stores initiated "Customer Service Teams" and roving service representatives to assure that at Target, "self-serve" shopping isn't "no-serve" shopping.

■ Target continues to increase its offering of the top-quality brand names America prefers.

Target is executing what it does best: deliver trend-right merchandise at the right price in a clean, fun, friendly and convenient environment.

■ At the same time, Target is expanding its line of quality, value-conscious private label merchandise. Its Greatland and Honors softlines labels, among others, are achieving sales goals.

■ In Fall 1990, Target will open its first super-store format in the Twin Cities. This experimental store will feature wider aisles, more dramatic merchandise displays, broader item assortments, more distinct signage and faster check out–all geared to making shopping easier and more enjoyable.

Popular entertainer Rita Moreno is helping Target advertise its "Al Rojo Vivo" storewide sale in 1990. "Al Rojo Vivo" is Target's way of offering customers "red hot prices on red hot items!"

DHDSC's FYI® free, personalized shopping service is tailor-made for today's busy customers. Last year, an FYI sales consultant at the Burnsville, Minnesota, store was unexpectedly asked to do the holiday shopping for a new customer who was too busy to shop. The customer approved the consultant's selections in a single meeting and her $5,000 of gifts were wrapped and delivered to her home well ahead of her family gatherings.

FYI®

■ During 1989, Target tested various pricing alternatives, part of its ongoing effort to refine pricing to provide value to customers. In 1990, it will continue to offer customers regular savings through its "Great Buy" pricing program.

■ Target's in-stock position continues to improve with the full implementation of its advanced inventory management programs.

■ Creative marketing and advertising techniques help keep Target at the forefront of trends. Newspaper advertising circulars were redesigned in 1989 to attract more readers and emphasize featured merchandise more clearly and dramatically. The circulars are reinforced by increased broadcast advertising. Target's highly successful practice of linking branded and private label merchandise with themed promotions further heightens customer interest. In 1989, The Jets rock group helped Target introduce the Gitano line of activewear. The Judds, a popular country-western duo, personified the Target spirit in broadcast advertisements announcing Target's arrival in the Southeast. Throughout 1990, Target has exclusive rights to incorporate the ever-popular Alvin and the Chipmunks in its private label merchandise and promotional activities.

MERVYN'S

Mervyn's customers are pressed for time. They're value conscious and want to have quality items at affordable prices. Mervyn's approach provides just the right amount of service for busy customers. Its assortment of trend-right goods offers the value and quality they want, too.

Mervyn's performance has been achieved through a multi-pronged effort to improve its responsiveness to customers' needs. Today, Mervyn's is working on

Mervyn's system of symbols on in-store signs helps guide customers more quickly to the areas of merchandise they want. This symbol refers to children's wear and is used in most point-of-purchase signage detailing children's clothing.

Dayton Hudson Department Stores offer customers a broad range of top-quality fashions and the knowledgeable service that helps get the most from each wardrobe addition.

several fronts to make sure it maintains its revitalized popularity among consumers.

■ In addition to carrying a wide range of nationally branded items, Mervyn's has greatly improved the quality of its private label merchandise. The effort is paying off. Among Mervyn's best-selling national brands are Health-Tex, Reebok and Jones of New York. Its most popular private lines in 1990 include Sprockets™ apparel for toddlers and Cheetah™ activewear for adults and children.

■ Mervyn's continues its strategy of aggressive store remodeling, having refurbished 25 stores in 1989 and proceeding with 40 more in 1990. The remodeled stores present Mervyn's merchandise more dramatically and make shopping easier.

Mervyn's offers the value, quality and level of service busy customers want, along with a dominant assortment of popular softlines.

■ The "Gainsharing" pilot program of team-based incentive compensation, introduced in stores during 1989, has increased incentives for better expense control and customer service, resulting in improved performance.

■ Mervyn's is revamping its marketing communications. During 1989, its advertising circulars were redesigned to emphasize more product information and stress how easy Mervyn's makes shopping. The circulars were reinforced with intensified broadcast advertising. In 1990, this approach is coupled with a full-scale revamping of private label product packaging to enhance interest and provide shoppers with more information.

DAYTON HUDSON DEPARTMENT STORE COMPANY

Nowhere is superior service more important than in the full-service department store format. In this era of intensifying competition, customer loyalty is often won or lost on service-related issues. DHDSC continues to pursue customer service improvements.

■ Performance Plus, DHDSC's multi-year program to improve customer service, is achieving its objectives. Both customers and employees appreciate its benefits. Overall, DHDSC's sales improve in each merchandise area converted to Performance Plus. At year-end 1989, 11 stores had fully implemented the program. Another five will adopt Performance Plus in 1990.

Dayton Hudson Department Store Company is improving customer service, updating stores and enhancing its fashion leadership.

■ The FYI free personalized shopping service, with 190 consultants, continues its dramatic growth in serving new customers.

■ DHDSC keeps its facilities fresh and exciting. In Minnesota, it will replace the Southdale store in Fall 1990 and the Rosedale store in Fall 1991. Two new Wisconsin stores and one Michigan store are set to open in the early 1990s, as is the expansion and remodel of the Burnsville, Minnesota, store.

Career-minded customers of Dayton Hudson Department Stores receive the quality, style, comfort and durability they demand from their wardrobe investment.

Photo left:
Mervyn's one-stop cashwrap stations are designed with busy customers in mind. Bar code scanning makes checking out faster.

Photo right:
Appropriate customer service and wide assortments of trend-right items deliver value to Target's shoppers.


Infants & toddlers
15% off
15% off
Just My Size
TARGET
100% Premium Acrylic
100% Premium Acrylic
TARGET

Managing for the Long Term

Dayton Hudson Department Stores' inventory position and associated carrying costs for certain lines have improved greatly thanks to increased use of UPC coding and electronic resupply systems. Among the many types of merchandise on the system is the Estee Lauder line of cosmetics and fragrances.

Retailing today is a business of details. Success requires thoughtful, experienced management. The management team must constantly challenge itself to reward its constituencies in the short term without sacrificing the company's long term growth.

The Corporation's top management changed at the outset of 1990 with the promotion of Stephen E. Watson as president following the retirement of Bruce G. Allbright. The corporate officers as a group–including the chief executives of the operating companies–have an average of 13 years' experience with the Corporation.

A major part of managing for the long term is understanding the critical factors for success in the future. We believe our future success depends on mastering technology and delivering exceptional customer service. For us, the two elements are closely linked: sophisticated, cost-effective management systems enable us to improve customer service.

TARGET

Target owes much of its fast growth to a focused management approach and its ability to adapt the latest technology. Without these, Target could not have successfully assimilated the 60 additional stores it did in 1989.

- Today, Target transmits voice and data communications via satellite throughout its coast-to-coast network of offices, distribution centers and stores.
- Advanced computer systems have been instrumental in helping Target achieve an improvement in its in-stock position over the past several years through rapid replenishment and better merchandise allocation programs.
- Major investments in new, state-of-the-art distribution facilities also enable Target to maintain a competitive cost structure by streamlining merchandise flow to its nearly 400 locations. Currently, about 85 percent of the merchandise carried by Target stores is processed through its system of seven distribution centers.
- Better data management and advanced distribution technologies are expanding opportunities for individual store merchants to tailor merchandise assortments to local tastes.

We believe our future success depends on mastering technology and delivering exceptional customer service.

Photo right:
Mervyn's highly successful key item program builds volume by identifying and intensively promoting popular merchandise, such as Levi's pants. Dominant product displays assure customers will find the size, style and color they want.


BUGLE BOY
LEVI'S
PCH
Levi's
501
Levi's
Levi's
550
Levi's
PERMIT

MERVYN'S

Mervyn's is achieving its objectives–to make shopping faster and reduce operating costs through better logistics. Mervyn's has analyzed and is constantly upgrading how it finds and buys goods, processes merchandise, presents goods in stores and captures the data of each transaction.

■ Mervyn's was the first among softlines retailers to adopt UPC ticketing and scanning. Today, all merchandise is handled in the UPC system.

■ Mervyn's began using electronic data interchange (EDI) technology two years ago and today submits approximately 75 percent of its purchase orders electronically to about 500 vendors. At present, Mervyn's is implementing electronic processing of invoices and computerized tracking of shipping notices.

■ Mervyn's has replaced its Northern California distribution center with a state-of-the-art facility in Fremont, California. This facility's updated materials handling technology can process 60 percent more merchandise and can accommodate further expansion.

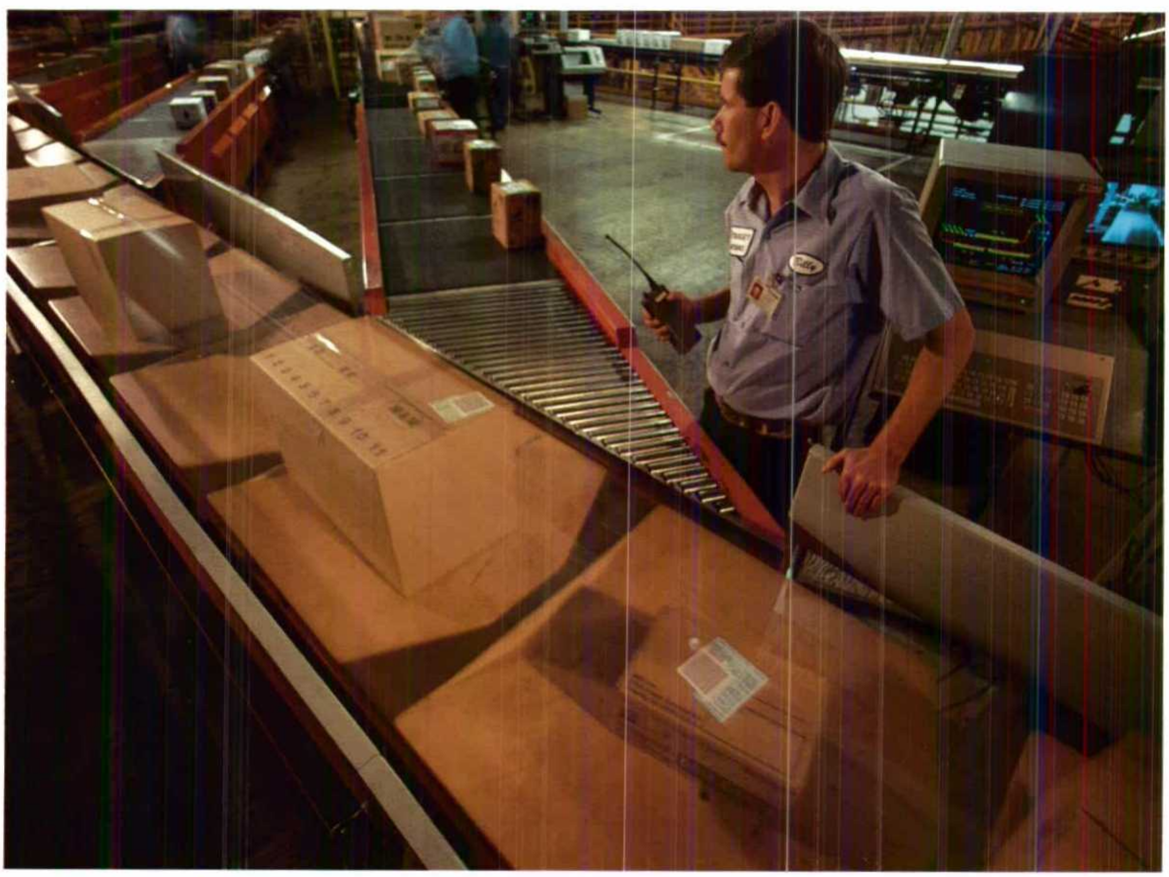
DAYTON HUDSON DEPARTMENT STORE COMPANY

Dayton Hudson Department Store Company's commitment to being well-managed is evidenced in the depth of its own executive team, whose leadership passed in early 1990 to Marvin W. Goldstein, who has spent half of his 24-year retailing career at DHDSC. DHDSC's management continues to reap the benefits of improved logistics by redeploying operating savings into better customer service.

■ A significant proportion of DHDSC's suppliers are now electronically linked via the company's EDI system, resulting in quicker replenishment and better inventory control.

■ DHDSC's new planner/distributor system allows stores to tailor merchandise assortments to the individual community.

One key to Mervyn's success is its ability to develop and merchandise high-quality private label apparel. Like its other private lines, Mervyn's "Sprockets"™ children's wear is a trusted favorite with many customers because it offers genuine value—great quality and styling that's affordable.



Target's coast-to-coast network of highly automated distribution facilities helps keep stock on shelves and smiles on customers' faces. Excellent management of behind-the-scenes details such as product flow help to keep Target competitive.

Being a Responsible Corporation

We recognize we have many constituencies, including shareholders, employees, customers and residents of the communities in which we operate. For years, our operating companies have demonstrated leadership in providing outstanding employment opportunities and contributing volunteer time and financial resources to our communities.

Each of our operating companies devotes considerable attention to enhancing compensation and career advancement opportunities for employees. At the same time, each management team works with employees to improve the balance between career and family responsibilities.

In early 1990 we significantly improved our benefit programs by implementing an Employee Stock Ownership Plan (ESOP). This program will make it easier for employees to participate in the success of our common enterprise.

The work of the Dayton Hudson Foundation and the individual efforts of employees are aimed at improving the arts and the economic and social prospects of the communities in which we operate. Our 1989 giving totaled more than $22 million.

In 1989, the Corporation received the America's Corporate Conscience Award from the Council on Economic Priorities for its work in charitable contributions. The award acknowledged the Dayton family's pioneering in 1946 of a five percent giving policy and the Corporation's subsequent efforts to focus our gifts to improve the arts and aid in the economic and social development of individuals and/or neighborhoods.

Late in 1989, President and Mrs. George H. Bush presented Chairman Kenneth A. Macke with the National Medal of Arts Award in recognition of the Corporation's long-standing support of cultural activities in our communities.

The Corporation, on behalf of Target and Mervyn's, was the first corporate contributor to the American Red Cross California earthquake fund.

TARGET

Target believes in partnerships–with customers, employees, vendors and communities. In addition to their "Power to Please" customer service thrust, Target and its employees are working to build healthy communities.

Target is launching Kids for Saving Earth (KFSE), a non-profit organization that gets kids involved in conserving energy, recycling, reducing pollution and protecting wildlife. KFSE was started as a school club by sixth-grader Clinton Hill, a Minnesotan who died of cancer last November. With the help of Target and its customers, Clinton's dream of a national kid's ecology organization may well become an important force for good in 1990.

Dayton Hudson Department Stores' management took out full-page newspaper ads in 1989 to recognize publicly its sales consultants for their outstanding efforts to improve customer service. Both Hudson's and Dayton's stores are seeing a marked increase in thank-you notes from customers, who appreciate the improving service.

■ In 1989, Target invested $3.5 million in its communities to support programs which are of concern to families: protecting the environment, providing quality childcare and preventing child abuse. By supporting family-oriented arts programs, Target enabled families to share positive, educational and entertaining experiences.

■ Today, Target recycles approximately 75 percent of its store material. Target also encourages employees and customers to further reduce the environmental impacts of their consumption at work and at home.

In November 1989, President and Mrs. George H. Bush recognized Dayton Hudson Corporation's contributions to the arts by presenting Chairman and Chief Executive Officer Kenneth A. Macke with the National Medal of Arts Award.

MERVYN'S

Mervyn's employees are part of a dynamic and closely-knit team that is committed to leadership in the retail industry. That leadership is enhanced by a commitment to community service.

We are committed to providing responsible leadership in ways that benefit investors, employees, customers and communities.

■ Mervyn's continues to offer employees extensive training opportunities through its Mervyn's University program, which provides managers with an interactive forum to improve their management and strategic skills.

■ In 1989, Mervyn's received the White House Private Sector Initiative citation in recognition of its Family-to-Family program, a multi-year effort to help improve the quality, variety and reliability of child care services in the communities in which it operates. Family-to-Family has been launched in 10 major cities Mervyn's serves.

■ Mervyn's received in April 1990 the California Association for the Education of Young Children Award for corporate commitment to children.

■ In response to an increasingly diverse population, Mervyn's is attracting more disabled and mature employees.

■ The Mexican American Legal Defense and Education Fund presented its 1989 Corporate Responsibility Award to Mervyn's for the development of an Hispanic leadership program.

■ In early 1990, Mervyn's was a co-recipient of the Governor's Award for Business in the Arts, presented by the Colorado Business Committee in recognition of Mervyn's efforts to increase access to the arts in that state.

DAYTON HUDSON DEPARTMENT STORE COMPANY

Dayton Hudson Department Store Company continues the tradition of its founders in providing meaningful partnership with employees and leadership in the communities where they live and work.

■ DHDSC's Job Plus program, which helps single mothers improve their employment skills and prospects, was examined as a prototype national program in testimony before the U.S. Senate Committee on Labor and Human Resources.

■ DHDSC remains active in creating seasonal festivities that have delighted citizens in its 34 communities for years.

Among its many gifts to the greater Detroit community, Hudson's is an underwriter of the local Independence Day fireworks display, a traditional festivity that draws thousands of area residents together.

1989 HIGHLIGHTS

- Led by exceptional performances from Target and Mervyn's, the Corporation achieved record earnings for the year with fully diluted earnings per share up 55% over 1988.
- Return on equity from continuing operations increased to a record level of 22%.
- Strong comparable-store revenue growth and double-digit operating profit increases were achieved by each Operating Company, with Target and Mervyn's operating profit substantially above last year.
- The purchase of 7 million shares of the Corporation's common stock was completed, primarily to offset the earnings per share impact of the employee stock ownership plan implemented near year-end.
- Dividends declared totaled $1.17 per share, an increase of 12% over $1.04½ per share a year ago.

CONTENTS

REPORT OF MANAGEMENT

RESPONSIBILITY FOR FINANCIAL STATEMENTS AND ACCOUNTING CONTROLS

The following financial statements and other information presented in this Annual Report have been prepared in accordance with generally accepted accounting principles. Management is responsible for the consistency, integrity and presentation of the information in the Annual Report, which necessarily includes some amounts based upon our judgment and best estimates.

To discharge this responsibility, we maintain comprehensive systems of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. After judging the cost and benefit factors, we believe our systems of internal controls provide this reasonable assurance.

The Audit Committee of the Board of Directors, consisting of five outside directors, recommends independent auditors for appointment by the Board, and reviews their proposed services and reports. The Committee also reviews the internal audit plan and audit reports. Our independent auditors, Ernst & Young, our internal auditors and our Chief Accounting Officer have full and free access to the Audit Committee, and meet with it periodically, with and without the presence of management. The results of the audits and related auditors' opinions on the adequacy of our internal controls and the quality of our financial reporting are regularly reviewed by the Committee.

Our financial statements have been audited by Ernst & Young, whose report appears on page 29. Their report expresses an opinion as to the fair presentation, in all material respects, of the financial statements and is based on an independent audit made in accordance with generally accepted auditing standards.

Kenneth A. Macke
Chairman of the Board and
Chief Executive Officer

Stephen E. Watson
President

Willard C. Shull, III
Senior Vice President
Finance

Karol D. Emmerich
Vice President, Treasurer
and Chief Accounting Officer

(Millions of Dollars, Except Per-Share Data)

Our objective is to provide shareholders with a superior return on their investment through a combination of current income and stock price appreciation, while maintaining a strong and flexible capital structure.

PERFORMANCE OBJECTIVES

■ *Return on equity of 18%.* Return on equity (ROE) from continuing operations increased to a record level of 22.0% in 1989 from 14.5% in 1988 and 10.5% in 1987. The ROE improvements were primarily due to increases in net earnings.

■ *Annual fully diluted earnings per share growth of 15%.* Fully diluted earnings per share increased 55% in 1989 compared with a 43% increase in 1988 and an 8% decrease in 1987. Over the past five years, fully diluted earnings per share from continuing operations has grown at a compound annual rate of 16%.

Achievement of our financial performance objectives depends largely on our ability to produce a superior return on investment (ROI). ROI is the ratio of net earnings before financing costs to total investment. We believe growth adjusted ROI is the most important single measure of financial performance and the primary financial tool used to manage our business. ROI is an important part of the performance appraisal and incentive compensation system for management, the allocation of expansion capital to Operating Companies and the evaluation of capital projects.

The ROI objective we establish for a capital project depends upon its maturity. Achievement of our annual ROI objective over the life of a project produces an internal rate of return of more than 13%. The ROI objective for each of our Operating Companies and the total Corporation is growth adjusted to reflect the average maturity of its investments.

Return on Investment	1989	1988	1987
Net earnings	$ 410	$ 287	$ 228
Interest expense–after tax (a)	152	119	75
Interest equivalent in operating leases–after tax (b)	27	24	26
Earnings before financing costs	$ 589	$ 430	$ 329
Working capital (c)	$1,221	$1,293	$1,204
Net property and equipment (d)	3,486	3,106	2,517
Other non-current assets	56	62	147
Present value of operating leases	414	376	382
Total investment at beginning of year	$5,177	$4,837	$4,250
Return on investment	11.4%	8.9%	7.7%

(a) Interest expense on beginning-of-year debt and capital leases.
(b) Assumes after-tax interest cost of approximately 6½% on beginning-of-year present value of operating leases for 1989 and 1988 and 7% for 1987.
(c) Current assets less non-interest bearing current liabilities.
(d) Includes capital leases.

FINANCIAL POLICIES

■ *Maintain strong investment grade ratings on our debt.* Our long-term debt is rated A+, A and AA- by Standard & Poor's, Moody's and Duff & Phelps, respectively. Commercial paper is rated A-1 and P-1 by Standard & Poor's and Moody's, respectively.

■ *Maintain a debt ratio within a range of 45% to 65%.* A debt ratio range gives management the flexibility to respond to changes in the economic and retail environment. A debt ratio near the bottom of the range provides the financial capacity to pursue strategic opportunities, while a debt ratio at the upper end of the range results from taking advantage of opportunities. Our debt ratio increase in recent years reflects Target's real estate acquisitions and our stock repurchase programs.

■ *Limit future capital expenditure commitments to a level which could be funded by projected internally generated funds.*

Capitalization	1989	1988	1987
Commercial paper	$ 234	$ 148	$ 353
Long-term debt (a)	2,582	2,478	1,837
Present value of operating leases	395	414	376
Total debt and equivalent	3,211	3,040	2,566
Deferred items and other (b)	226	276	285
Common shareholders' equity	1,753	1,861	1,986
Total capitalization	$5,190	$5,177	$4,837
Debt ratio (total debt and equivalent as a percentage of total capitalization)	62%	59%	53%

(a) Includes capital leases and current portion of debt and capital leases.
(b) Includes Redeemable Preferred Stock and Loan to ESOP.

CAPITAL INVESTMENT

The majority of our capital investment continues to be allocated to Target. In 1989, capital investment totaled $622 million and is expected to exceed $700 million in 1990. In addition to new stores, capital is invested in remodeling stores, improving distribution and upgrading systems and technology.

Capital Investment	1989	1988	1987
Capital expenditures	$ 603	$ 681	$ 839
Present value of new operating leases	19	56	37
Total	$ 622	$ 737	$ 876

DIVIDENDS AND COMMON STOCK PRICE PER SHARE

To support the objective of providing shareholders with a superior return on their investment, it is our policy to make regular annual increases in dividends on common stock.

Dividends declared in 1989 totaled $1.17 per share, a 12% increase over the $1.04½ per share declared in 1988. The quarterly dividend paid in the first quarter of 1990 was increased to $.33 per share, representing an annualized dividend of $1.32 per share.

On March 28, 1990 there were 13,055 shareholders of record and the common stock price was $68⅞.

(Millions of Dollars, Except Per-Share Data)

EARNINGS GROWTH

Continuing its momentum, Dayton Hudson Corporation reported excellent earnings growth in 1989 with each of its major Operating Companies contributing at record levels.

Fully diluted earnings per share increased 55% in 1989 following a 43% increase in 1988 and an 8% decrease in 1987. Fully diluted earnings per share for 1989 include the dilutive effect of common stock equivalents and assumed conversion of the ESOP preferred stock since date of issuance. Fully diluted earnings per share for 1988 and 1987 are as originally reported. The following table illustrates the impact of the major factors contributing to the change in fully diluted earnings per share since 1987.

Variance analysis:	**1989 vs. 1988**	1988 vs. 1987
Prior year's fully diluted earnings per share	**$3.45**	$2.41
Change in fully diluted earnings per share due to:		
Revenues	**.66**	.52
Gross margin rate	**.60**	.36
Operating expense rate	**.21**	(.16)
Start-up expense	**(.01)**	.24
Interest expense, net *	**(.11)**	(.19)
Income tax rate	**(.02)**	.18
Corporate expense and other factors, net	**.40**	(.12)
Employee stock ownership plan, net*	**(.05)**	—
Stock repurchase, net *	**.22**	.21
Fully diluted earnings per share	**$5.35**	$3.45

*Stock repurchase, net includes the impact of interest incurred on debt issued to finance the stock repurchase programs, except interest expense and shares related to the ESOP.

Net earnings increased 43% in 1989 following a 26% increase in 1988, and a 10% decline in 1987.

The difference between the percentage changes in net earnings and fully diluted earnings per share is due to the impact of the stock repurchase programs. Management believes the percentage increase in fully diluted earnings per share to be the truer measure of performance because the change in net earnings is negatively impacted by interest on debt incurred to finance the repurchases, but it does not reflect the significant positive impact of the reduced number of shares.

REVENUES

Each of our three major Operating Companies achieved strong comparable-store (stores open longer than 12 months) revenue increases during 1989, with Target generating the major portion of total revenue growth. Target's growth was fueled by its aggressive expansion in California and the Southeastern part of the country over the past few years. Revenue growth at Mervyn's was due to strong comparable-store sales growth, remodeling of stores and continued expansion into its existing markets, while the 1989 increase at Dayton Hudson Department Store Company (DHDSC) came from base business growth. Inflation over the past three years has been minimal and as a result, reported revenue increases closely approximate real growth.

Revenue Growth	**1989**				1988		1987	
	(53 Weeks)		**(52 Weeks)**		(52 Weeks)		(52 Weeks)	
	All Stores	**Comp. Stores**	**All Stores**	**Comp. Stores**	All Stores	Comp. Stores	All Stores	Comp. Stores
Target	**19%**	**7%**	**17%**	**6%**	19%	3%	22%	4%
Mervyn's	**13**	**9**	**12**	**8**	7	1	11	1
DHDSC	**6**	**6**	**5**	**5**	9	9	(1)	(1)
Total*	**15%**	**8%**	**14%**	**6%**	14%	3%	14%	2%

*Excludes Lechmere.

One measure used to evaluate store productivity is revenues per square foot.

Revenues Per Square Foot* (Unaudited) (Dollars)	**1989**	1988	1987
Target	**$197**	$192	$193
Mervyn's	**224**	209	216
DHDSC	**233**	222	202

*Thirteen-month average retail square feet.

Improved revenues per square foot at Target and Mervyn's reflect strong comparable-store sales growth. DHDSC's increase is also due to strong mature-store sales growth, plus the continued implementation of its program to provide superior customer service. The impact of the 53rd week in fiscal 1989 on revenues per square foot was minimal.

Included in revenues is finance charge revenue of $161 million on internal credit sales of $2.7 billion in 1989, $147 million on sales of $2.6 billion in 1988, and $143 million on sales of $2.4 billion in 1987.

GROSS MARGIN RATE

The overall gross margin rate (excluding buying and occupancy) improved during 1989 despite the continued rapid expansion of Target, our low-margin strategy. Significantly lower 1989 LIFO expense contributed to the overall rate improvement.

■ **Target's** gross margin rate improved due to a lower markdown rate and LIFO expense, partially offset by the impact of its everyday low pricing test and other planned programs to improve customer value.

■ **Mervyn's** solid gross margin rate increase was due to better inventory content and controls, resulting in a significant improvement in the markdown rate. Lower LIFO expense in 1989 also contributed to the gross margin rate increase.

■ **DHDSC's** gross margin rate was up slightly compared with last year primarily reflecting lower 1989 LIFO expense.

Strong improvement in the overall gross margin rate in 1988 as compared to 1987 was primarily due to strengthened inventory controls and content resulting in fewer markdowns at Mervyn's and DHDSC.

OPERATING EXPENSE RATE

The overall operating expense rate improved in 1989 compared to 1988. Operating expenses include buying and occupancy costs, selling, publicity and administrative expenses, depreciation and taxes other than income taxes.

■ **Target's** operating expense rate improved slightly due to a strong sales gain, partially offset by increased costs for national promotions and start-up costs for the implementation of efficiency programs at stores and distribution centers.

■ **Mervyn's** operating expense rate improved for the fourth consecutive year as a result of strong sales growth and the continued emphasis on expense control.

■ **DHDSC's** operating expense rate improved slightly despite the absorption of higher store expenses relating to the continued implementation of its program to provide superior customer service.

The slight increase in the 1988 overall operating expense rate compared with 1987 reflected aggressive expense control at Mervyn's, offset by slightly higher expenses at Target as a result of new store openings and at DHDSC due to implementation costs of its customer service program.

START-UP EXPENSE

Overall start-up expense increased slightly in 1989 reflecting the expansion of Target into the Southeastern part of the country. A total of 69 new stores were opened by our Operating Companies in 1989 compared with 42 new stores in 1988.

INTEREST EXPENSE

Interest costs increased significantly during 1989 due to higher levels of debt required for capital expansion, store remodels and other improvements and financing of the stock repurchase programs.

Components of Interest Expense, Net	1989	1988	1987
Interest on debt*	**$ 268**	$ 214	$ 146
Interest on capital leases	**15**	17	17
Interest cost capitalized	**(10)**	(7)	(7)
Interest income	**(6)**	(6)	(4)
Net expense	**$ 267**	$ 218	$ 152

*Includes interest incurred on debt to finance the stock repurchase programs, including interest on ESOP shares, of $74 million in 1989, $39 million in 1988 and $5 million in 1987.

INCOME TAXES

Effective tax rates for the past three years vary from the federal statutory rate as follows:

Percent of Earnings Before Income Taxes	1989	1988	1987
Statutory rate	**34.0%**	34.0%	39.0%
State income taxes, net of federal tax benefit	**4.3**	4.7	4.1
Tax credits, net*	**(.5)**	(.5)	(.6)
Other	**1.7**	1.0	.4
Effective tax rate	**39.5%**	39.2%	42.9%

*Tax credits, net, primarily targeted job tax credits, were $3 million in 1989 and $2 million in 1988 and 1987.

The benefit of a lower tax rate in 1989 and 1988, resulting from the 1986 Tax Reform Act, is partially offset by the reduced benefit of state tax deductions.

The components of the provision for income taxes for the past three years are as follows:

Income Tax Provision	1989	1988	1987
Current:			
Federal	**$ 231**	$ 175	$ 170
State	**46**	39	32
	277	214	202
Deferred:			
Federal	**(8)**	(24)	(26)
State	**(1)**	(5)	(5)
	(9)	(29)	(31)
Total	**$ 268**	$ 185	$ 171

The deferred tax provision is comprised of the following timing differences:

Deferred Tax Provision	1989	1988	1987
Depreciation expense	**$ 24**	$ 31	$ 40
Installment sales deferred income	**(33)**	(29)	(38)
Inventory cost capitalization	**(8)**	(4)	(11)
Bad debt expense	**(4)**	(5)	(2)
Vacation pay expense	**(2)**	(4)	(6)
Test strategy reserve	**11**	(13)	—
Other	**3**	(5)	(14)
Provision for deferred taxes	**$ (9)**	$ (29)	$ (31)

Tax legislation enacted in 1987 and 1986 eliminated installment sales reporting and created new timing differences pertaining to inventory capitalization rules, bad debt expense and limitations on vacation accruals. Most of these items have a four-year transition period.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The Statement, as amended, requires all companies to adopt the liability method of accounting for income taxes no later than 1992. Adoption of the Statement is planned for the beginning of the 1990 fiscal year with the benefit of the change shown as a cumulative effect of accounting change to net earnings of approximately $50 million to $60 million.

CORPORATE EXPENSE AND OTHER

Corporate expense and other for the past three years are as follows:

Corporate Expense and Other	1989	1988	1987
Corporate headquarters expense	**$20**	$19	$18
Other	**21**	47	26
Total	**$41**	$66	$44

The major components of other are charitable contributions in support of our 5% giving program, net results of test strategies and the operating results of Lechmere through September 30, 1989, the effective date of its sale.

Other also includes a $10 million reversal in second quarter 1989 of a $35 million reserve established in fourth quarter 1988 for the discontinuance of a test strategy. Included in other in 1987 is a $9 million expense related to an unsolicited takeover proposal.

EMPLOYEE STOCK OWNERSHIP PLAN

The Corporation established an employee stock ownership plan (ESOP) in January 1990 to enhance its employee benefit program. Implementation is scheduled for April 1990. The ESOP has been funded through the issuance of a new series of the Corporation's preferred stock.

The impact of the employee stock ownership plan, as shown in the variance analysis, includes the net earnings impact associated with the ESOP, the impact of the October 1989 stock repurchase program (including interest expense) attributable to common stock equivalent to ESOP conversion requirements, and adjustments related to the fully diluted earnings per share calculation.

SIGNIFICANT EVENTS

■ **Stock Repurchase.** In July 1989, the Board of Directors authorized the Corporation to purchase 7 million shares of its common stock. The shares were purchased via a Dutch Auction cash self tender offer completed in October 1989 at a price of $62.875 per share. The majority of the 7 million shares are equivalent to future conversion requirements of the newly established ESOP.

In October 1988 and October 1987, the Board of Directors authorized the Corporation to purchase a total of 20 million shares of its common stock. The purchase was completed during 1988 at an average price of $33 per share.

■ **Sale of Lechmere.** The sale of Lechmere was completed in November 1989 for approximately book value plus selling expenses. This transaction was immaterial to our consolidated financial statements. Operating results include Lechmere through September 30, 1989 (the effective date of the sale).

■ **Real Estate and Lease Acquisitions.** In 1988, Target purchased 31 stores in the Southeastern part of the country. The stores were remodeled and opened as Target stores during 1989. In 1986, Target purchased existing store sites located primarily in California, with 50 sites opened as Target stores in 1987.

Analysis of Operations

BUSINESS SEGMENT COMPARISONS

(Millions of Dollars)	1989*	1988	1987	1986	1985	1984*
Revenues						
Target	**$ 7,519**	$ 6,331	$ 5,306	$4,355	$3,931	$3,550
Mervyn's	**3,858**	3,411	3,183	2,862	2,527	2,141
Dayton Hudson Department Store Company	**1,801**	1,693	1,552	1,566	1,448	1,396
Other	**466**	769	636	476	349	432
Total	**$13,644**	$12,204	$10,677	$9,259	$8,255	$7,519
Operating Profit						
Target	**$ 449**	$ 341	$ 323	$ 311	$ 278	$ 236
Mervyn's	**358**	256	150	160	245	223
Dayton Hudson Department Store Company	**179**	159	122	166	122	107
Total	**986**	756	595	637	645	566
Interest Expense, Net	**267**	218	152	118	100	98
Corporate and Other	**41**	66	44	25	27	15
Earnings from Continuing Operations Before Income Taxes and Extraordinary Charge	**$ 678**	$ 472	$ 399	$ 494	$ 518	$ 453
Operating Profit as a Percent of Revenues						
Target	**6.0%**	5.4%	6.1%	7.1%	7.1%	6.6%
Mervyn's	**9.3**	7.5	4.7	5.6	9.7	10.4
Dayton Hudson Department Store Company	**10.0**	9.4	7.9	10.6	8.4	6.9
Assets						
Target	**$ 3,505**	$ 2,982	$ 2,638	$2,179	$1,519	$1,375
Mervyn's	**2,260**	2,166	2,114	1,817	1,615	1,329
Dayton Hudson Department Store Company	**838**	808	761	739	738	727
Corporate and Other	**81**	567	563	547	546	369
Total	**$ 6,684**	$ 6,523	$ 6,076	$5,282	$4,418	$3,800
Depreciation						
Target	**$ 170**	$ 146	$ 103	$ 76	$ 70	$ 66
Mervyn's	**98**	91	82	68	54	43
Dayton Hudson Department Store Company	**34**	33	30	28	27	32
Corporate and Other	**13**	20	16	11	7	4
Total	**$ 315**	$ 290	$ 231	$ 183	$ 158	$ 145
Capital Expenditures						
Target	**$ 414**	$ 457	$ 501	$ 598	$ 138	$ 110
Mervyn's	**133**	154	207	243	177	165
Dayton Hudson Department Store Company	**37**	31	49	31	37	33
Corporate and Other	**19**	39	82	69	51	28
Total	**$ 603**	$ 681	$ 839	$ 941	$ 403	$ 336

*Consisted of 53 weeks.
Other includes Diamond's and John A. Brown through September 1984 and Lechmere through September 1989.

BUSINESS SEGMENT TRENDS

Total operating profit from Target, Mervyn's and DHDSC increased 31% in 1989 as each Operating Company contributed at a record level. Target posted its 15th consecutive year of record operating profit with a 32% increase over last year, while Mervyn's 40% increase and DHDSC's 12% increase also propelled both companies' operating profit to record levels.

■ **Target's** significant increase in operating profit primarily reflects strong sales growth and an improved gross margin rate. The increased operating profit was achieved despite lower productivity in its substantial new store base.

■ **Mervyn's** operating profit improved substantially reflecting continued improvement in sales, gross margin and expense management.

■ **DHDSC's** operating profit achieved a record level due to a solid sales gain and improved gross margin and operating expense rates.

QUARTERLY RESULTS (Unaudited)

The Corporation reported a double-digit increase in total revenues and a solid increase in comparable-store revenues in all four quarters of 1989. During 1989, fully diluted earnings per share for each quarter showed substantial improvement over the respective quarter in 1988.

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data:

- Costs directly associated with revenues, such as cost of goods sold and additional rent on leased stores, are allocated based on revenues.
- Certain other costs not directly associated with revenues, such as real estate taxes, bonuses, professional fees, costs of opening new stores and benefit plan expenses, are allocated evenly throughout the year.

The table below summarizes our results by quarter for 1989 and 1988.

The following table shows quarterly last in, first out (LIFO) expense and its impact on fully diluted earnings per share.

LIFO Expense/(Credit)*	**1989**		1988		1987	
Quarter	**$**	**Per Share**	$	Per Share	$	Per Share
First	**$ 15**	**$ .11**	$12	$.09	$ 9	$ .05
Second	**13**	**.11**	14	.10	11	.06
Third	**4**	**.03**	10	.07	4	.02
Fourth	**(32)**	**(.26)**	8	.06	(2)	(.01)
Total Year	**$ —**	**$ —**	$44	$.32	$22	$ .13

*LIFO expense per share is computed based on fully diluted average shares outstanding during each period. The sum of quarterly LIFO expense per share may not equal the total-year amount due to the impact of stock repurchase programs on average shares outstanding.

The allocation of LIFO expense is adjusted each quarter for changes in estimates of retail inflation rates and inventory and markup levels. In fourth quarter, a final adjustment is recorded for the difference between the prior quarters' estimates and actual LIFO expense. In 1989, the fourth quarter LIFO credit reflects a lower than anticipated retail inventory inflation rate.

The decrease in the 1989 LIFO provision is due primarily to a lower retail inventory inflation rate relative to 1988 and growth in inventory levels associated with increased new store openings. The increase in the 1988 LIFO provision was due primarily to a higher inflation rate relative to 1987 and a smaller growth in inventory levels due to fewer new store openings.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1989	1988	**1989**	1988	**1989**	1988	**1989**	1988	**1989**	1988
Revenues	**$2,826**	$2,544	**$3,097**	$2,693	**$3,236**	$2,867	**$4,485**	$4,100	**$13,644**	$12,204
Gross Profit (a)	**$ 768**	$ 654	**$ 832**	$ 672	**$ 867**	$ 770	**$1,287**	$1,128	**$ 3,754**	$ 3,224
Net Earnings	**$ 40**	$ 31	**$ 56**	$ 28	**$ 64**	$ 46	**$ 250**	$ 182	**$ 410**	$ 287
Fully Diluted Earnings Per Share (b)	**$ .51**	$ .36	**$ .72**	$ .34	**$ .83**	$ .54	**$ 3.45**	$ 2.31	**$ 5.35**	$ 3.45
Average Common Shares Outstanding (Millions)– Fully Diluted (c)	**77.7**	85.7	**77.7**	84.8	**77.5**	83.8	**72.3**	79.1	**76.6**	83.3
Quarterly Dividend Declared Per Share	**$ .28**	$ .25½	**$ .28**	$ .25½	**$ .28**	$ .25½	**$ .33**	$ .28	**$ 1.17**	$ 1.04½
Common Stock Price (d)										
High	**$ 48**	$ 40¾	**$ 58**	$ 36⅝	**$ 64**	$ 45½	**$ 66⅜**	$ 44¼	**$ 66⅜**	$ 45½
Low	**43**	32¾	**47½**	31⅝	**57⅞**	34⅞	**58⅛**	38⅝	**43**	31⅝

(a) Gross profit is revenues less cost of retail sales, buying and occupancy. Rental expense has been reclassified into occupancy for all periods represented in this report.
(b) Fully diluted earnings per share are computed independently for each of the quarters presented. The sum of the quarterly earnings per share does not equal the total-year amount due to the impact of stock repurchase programs on average shares outstanding.
(c) Fully diluted earnings per share for Fourth Quarter and Total Year 1989 include the dilutive effect of common stock equivalents and assumed conversion of the ESOP Preferred Stock since date of issuance. Fully diluted earnings per share for the first three quarters of 1989 and all periods of 1988 are as originally reported.
(d) Dayton Hudson Corporation's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.

CONSOLIDATED RESULTS OF OPERATIONS

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Data)	1989	1988	1987
Revenues	**$ 13,644**	$ 12,204	$ 10,677
Costs and Expenses			
Cost of retail sales, buying and occupancy	**9,890**	8,980	7,950
Selling, publicity and administrative	**2,264**	2,038	1,769
Depreciation	**315**	290	231
Interest expense, net	**267**	218	152
Taxes other than income taxes	**230**	206	176
Total Costs and Expenses	**12,966**	11,732	10,278
Earnings Before Income Taxes	**678**	472	399
Provision for Income Taxes	**268**	185	171
Net Earnings	**$ 410**	$ 287	$ 228
Earnings Per Share:			
Primary	**$ 5.37**	$ 3.45	$ 2.41
Fully Diluted	**$ 5.35**	$ 3.45	$ 2.41
Average Common Shares Outstanding (Millions):			
Primary	**76.3**	83.3	94.8
Fully Diluted	**76.6**	83.3	94.8

These financial statements should be read in conjunction with the Analysis of Operations on pages 17-21 and the information on pages 26-29.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	February 3, 1990	January 28, 1989
ASSETS		
Current Assets		
Cash and marketable securities	**$ 103**	$ 53
Accounts receivable (net of allowance for doubtful accounts of $37 and $35)	**1,138**	1,223
Merchandise inventories (net of accumulated LIFO provision of $169 and $154)	**1,827**	1,669
Other	**39**	36
Total Current Assets	**3,107**	2,981
Property and Equipment		
Land	**545**	497
Buildings and improvements	**2,749**	2,566
Fixtures and equipment	**1,422**	1,335
Construction-in-progress	**157**	308
Accumulated depreciation	**(1,350)**	(1,220)
Net Property and Equipment	**3,523**	3,486
Other	**54**	56
Total Assets	**$ 6,684**	$ 6,523
LIABILITIES AND COMMON SHAREHOLDERS' INVESTMENT		
Current Liabilities		
Commercial paper	**$ 234**	$ 148
Accounts payable (including outstanding drafts of $276 and $248)	**1,166**	1,056
Accrued liabilities	**536**	566
Income taxes–payable and current deferred	**187**	138
Current portion of long-term debt	**72**	95
Total Current Liabilities	**2,195**	2,003
Long-Term Debt	**2,510**	2,383
Deferred Income Taxes and Other	**225**	276
Redeemable Preferred Stock	**379**	—
Loan to ESOP	**(378)**	—
Common Shareholders' Investment		
Common stock	**71**	78
Additional paid-in capital	**34**	25
Retained earnings	**1,648**	1,758
Total Common Shareholders' Investment	**1,753**	1,861
Total Liabilities and Common Shareholders' Investment	**$ 6,684**	$ 6,523

These financial statements should be read in conjunction with the Analysis of Operations on pages 17-21 and the information on pages 26-29.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	1989	1988	1987
Operating Activities			
Net Earnings	**$ 410**	$ 287	$ 228
Reconciliation to cash flow:			
Depreciation and amortization	**319**	292	232
Non-current deferred tax provision	**19**	27	5
Current deferred tax provision	**(29)**	(56)	(36)
Decrease/(increase) in accounts receivable	**91**	(149)	(21)
(Increase) in inventory	**(158)**	(46)	(311)
Increase in accounts payable	**110**	1	213
Increase/(decrease) in income taxes payable	**33**	35	(18)
Other	**(56)**	146	18
Cash Flow Provided by Operations	**739**	537	310
Investing Activities			
Expenditures for property	**619**	690	787
Disposals of property	**(234)**	(18)	(86)
Total from Investing Activities	**385**	672	701
Net Financing (Sources) Requirements	**(354)**	135	391
Financing Activities			
Increase/(decrease) in commercial paper	**86**	(205)	353
Additions to long-term debt	**242**	691	451
Purchase and redemption of debt	**(30)**	(39)	—
Principal payments on long-term debt	**(95)**	(17)	(19)
Repurchase of common stock	**(440)**	(329)	(340)
Dividends paid	**(85)**	(85)	(87)
Other	**18**	(3)	(16)
Total from Financing Activities	**(304)**	13	342
Net Increase/(Decrease) in Cash and Cash Equivalents	**50**	(122)	(49)
Cash and cash equivalents at beginning of year	**53**	175	224
Cash and Cash Equivalents at End of Year	**$ 103**	$ 53	$ 175

Amounts in these statements are presented on a cash basis and therefore may differ from those shown in other sections of this annual report. For purposes of these statements, all short-term investments purchased with a maturity of three months or less are considered cash equivalents.

Investing and financing activities not reported in the Statements of Cash Flows, because they do not involve cash, include financing activities in 1989 of the issuance of $379 million of ESOP preferred stock in consideration for a $379 million 15-year loan from the ESOP. Non-cash investing and financing activities also include capital lease activity. In 1989, disposition of capital leases on buildings and equipment were $(12) million. In 1988 and 1987, obligations were incurred when leases were entered into for buildings and equipment of $2 million and $8 million, respectively. In addition, non-cash capital expenditures resulting from assumed liabilities and asset reclassifications were $3 million in 1989 and $43 million in 1987.

Interest paid (including interest capitalized) during 1989, 1988 and 1987 was $269 million, $196 million and $141 million, respectively. Income tax payments of $248 million, $179 million and $218 million were made during 1989, 1988 and 1987, respectively.

The net change in commercial paper includes the repayment of $6 million of commercial paper with maturities over 90 days in 1988 and the issuance of $66 million and repayment of $60 million of commercial paper with maturities over 90 days in 1987.

In 1989, the reconciliation of net earnings to cash flow and disposals of property include the sale of Lechmere.

These financial statements should be read in conjunction with the Analysis of Operations on pages 17-21 and the information on pages 26-29.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' INVESTMENT

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	Total	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance January 31, 1987	$ 2,180	$ 97	$ 19	$ 2,064
Consolidated net earnings	228			228
Dividends declared	(87)			(87)
Stock option activity	5	1	4	
Stock repurchase	(340)	(12)		(328)
Balance January 30, 1988	1,986	86	23	1,877
Consolidated net earnings	287			287
Dividends declared	(85)			(85)
Stock option activity	2		2	
Stock repurchase	(329)	(8)		(321)
Balance January 28, 1989	1,861	78	25	1,758
Consolidated net earnings	410			410
Dividends declared	(87)			(87)
Stock option activity	9		9	
Stock repurchase	(440)	(7)		(433)
Balance February 3, 1990	**$ 1,753**	**$ 71**	**$ 34**	**$ 1,648**

Preferred Stock

Authorized 5,000,000 shares, $.01 par value; 438,353 shares (Series B ESOP Convertible Preferred Stock) outstanding at February 3, 1990; no shares outstanding at January 28, 1989.

Common Stock

Authorized 500,000,000 shares $1 par value; 70,874,232 shares issued and outstanding at February 3, 1990; 77,648,989 shares issued and outstanding at January 28, 1989.

Junior Preferred Stock Rights

In September 1986, a distribution of preferred share purchase rights was declared. Terms of the plan provide for a distribution of one preferred share purchase right on each outstanding share of Dayton Hudson common stock. Each right will entitle shareholders to buy one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $150, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20% or more of Dayton Hudson common stock or announces a tender offer to acquire 30% or more of the common stock.

These financial statements should be read in conjunction with the Analysis of Operations on pages 17-21 and the information on pages 26-29.

SUMMARY OF ACCOUNTING POLICIES

Consolidation. The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries after elimination of material intercompany balances and transactions. All subsidiaries are wholly owned.

Marketable Securities. Short-term investments are recorded at cost, which approximates market.

Sales and Accounts Receivable. All customer receivables are classified as current assets including some which are due after one year, consistent with industry practice. Accounts receivable generally are written off when any portion of the balance is 12 months past due, or when the required payments have not been received for six consecutive months. The allowance for doubtful accounts is based on past bad debt experience and on the ages of the various accounts. For tax purposes, a bad debt is recognized when the account is written off.

Inventories. Inventories and the related cost of sales are accounted for by the retail inventory accounting method using the last-in, first-out (LIFO) basis. Under this method, the cost of goods sold as reported in the financial statements reflects current cost, thereby minimizing the effect of rising prices associated with inflation. Certain additional costs are included in inventory for income tax purposes.

Property and Equipment. Property and equipment is recorded at cost less accumulated depreciation. For financial reporting, depreciation on property is computed using the straight-line method over estimated useful lives. Accelerated depreciation methods generally are used for tax purposes.

Per-Share Data. Primary earnings per share are computed by dividing net earnings less dividend requirements on ESOP preferred stock by the average common stock and common stock equivalents outstanding during the period. Fully diluted earnings per share assumes conversion of the ESOP preferred stock and adjusts net earnings for the additional expense required as a result of the assumed elimination of the ESOP preferred stock dividends. In 1988 and 1987, the primary and fully diluted earnings per share computations are based upon weighted average shares outstanding as common stock equivalents did not materially dilute earnings per share.

Fiscal Year. The fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years. Fiscal year 1989 included 53 weeks, while 1988 and 1987 included 52 weeks.

Reclassifications. Various reclassifications have been made to the previously reported 1988 and 1987 amounts to conform with the 1989 presentation.

DEBT AND LEASES

(Millions of Dollars)

LINES OF CREDIT

At February 3, 1990, $434 million in commercial paper was outstanding at a weighted average interest rate of 8.3%, with $200 million classified as long-term debt. During the year, the average amount of commercial paper and notes payable outstanding was $453 million, at a weighted average interest rate of 9.1%.

During 1989, interest rate swaps were utilized to reduce interest rate risk by effectively fixing rates on $200 million of variable-rate commercial paper.

Unsecured lines of credit ranging from $69 million to $557 million were maintained with ten banks during 1989, with a portion of these credit facilities maintained to meet temporary working capital needs. At year-end, unsecured lines of credit totaled $144 million. The lines of credit bear interest at prime or at other rates agreed upon at the time of the borrowings. Compensating balances were not required under any of these agreements.

At year-end, additional credit was also available in the form of an annually renewable, three-year revolving credit agreement for $185 million with nine lending institutions and a four-year revolving credit agreement for $125 million with six lending institutions.

A fee is paid for the availability of the revolving credit agreements and an option is available to borrow at the prime rate or other negotiated rates. In each of the years 1989, 1988 and 1987 fees of $1 million were paid under these agreements. Any balance outstanding under the three-year revolving credit agreement at the end of a three-year period may be converted at our option into a four-year term loan. There were no balances outstanding at February 3, 1990.

LONG-TERM DEBT

During 1989, long-term debt of $44 million due 1990 to 2014 was issued at rates ranging from 6% to 9.95%.

At year-end 1989 and 1988, long-term debt, including capital lease obligations, due beyond one year was:

Long-Term Debt	Feb. 3, 1990	Jan. 28, 1989
Commercial paper backed by revolving credit	**$ 200**	$ —
7½% to 11¼% Unsecured Notes and Sinking Fund Notes and Debentures due 1990 to 2017	**2,125**	2,177
7¾% to 13¼% Other Unsecured Notes due 1990 to 2014	**35**	38
5.6% to 12% Notes and Contracts for purchase of real estate due 1990 to 2014	**34**	32
Capital lease obligations	**116**	136
Total	**$2,510**	$2,383

At February 3, 1990, long-term revolving credit agreements supported the $200 million of commercial paper which bears interest rates fixed through swap agreements. It is our intention to maintain such obligations outstanding for a period beyond one year.

The sinking fund and principal payments on long-term debt, excluding commercial paper and capital lease obligations, over the next five years will be $67 million in 1990, $247 million in 1991, $181 million in 1992, $246 million in 1993 and $43 million in 1994.

Collateral. As a condition of borrowing under mortgage notes and contracts, related land, buildings and equipment have been pledged as collateral. At year end, approximately $47 million of property and equipment served as collateral for these loans.

LEASES

Leased property and equipment which is capitalized and included in Property and Equipment in the Statements of Financial Position is as follows:

Property Under Capital Leases	Feb. 3, 1990	Jan. 28, 1989
Land and buildings	**$161**	$174
Equipment	**12**	13
Accumulated depreciation	**(80)**	(75)
Net	**$ 93**	$112

If the minimum lease payments for all operating leases with initial terms of over one year were capitalized, the present value of these payments would be approximately $395 million at year-end 1989 and $414 million at year-end 1988. These present values were calculated using an average interest rate for each lease based on the year of inception. The weighted average interest rate used to calculate the 1989 and 1988 present value was 11%.

Many of the longer-term leases include options to renew, with renewal terms varying from five to thirty years. Certain leases also include options to purchase the property.

Rent expense, included in buying and occupancy, includes percentage rents which are based on a percentage of sales over stated levels.

Composition of Rental Expense	1989	1988	1987
Minimum rents on long-term operating leases	**$68**	$70	$71
Short-term rents	**11**	11	14
Percentage rents	**15**	16	16
Sublease income	**(2)**	(2)	(2)
Executory costs	**(2)**	(2)	(2)
Net expense	**$90**	$93	$97

Future minimum lease payments required under noncancellable lease agreements existing at the end of 1989 are:

Future Minimum Lease Payments	Operating Leases	Capital Leases
1990	$ 62	$ 20
1991	61	20
1992	60	19
1993	57	18
1994	54	18
After 1994	495	198
Total future minimum lease payments*	$789	293
Less: Interest		164
Executory costs		8
Capitalized lease obligations, including current portion of $5		$121

*Future minimum lease payments have not been reduced by minimum sublease income due in the future under noncancellable subleases ($6 million for operating leases, $10 million for capital leases).

COMMITMENTS AND CONTINGENCIES

Commitments for the purchase of real estate, construction of new facilities and remodeling amounted to approximately $77 million at February 3, 1990. Additional commitments for equipment purchases totalled $30 million.

The contingent liability for mortgage debt on certain office properties sold in 1976 and certain shopping centers sold in 1978 was approximately $29 million at February 3, 1990. The purchasers have agreed to indemnify the Corporation for any costs incurred in relation to the mortgages.

Regular contact with the general public, other businesses and governmental entities subjects the Corporation to claims and litigation arising out of the ordinary course of business. Considering the insurance coverage in place for a portion of the claims and litigation, and noting that the ultimate consequences cannot be accurately predicted, management and legal counsel believe that presently identified claims and litigation will not have a material adverse effect on operations or financial condition.

(Millions of Dollars)

PENSION PLANS

At the end of 1989, three defined benefit pension plans were in place which cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits provided are based upon years of service and the employee's compensation during the last five years of employment.

Contributions to the pension plans, which are made solely by the Corporation, are determined by our outside actuarial firm. To compute net pension cost, our actuarial firm estimates the total benefits which will ultimately be paid to eligible employees and then allocates these costs to service periods.

The period over which unrecognized pension costs and credits are amortized, including prior service costs and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits.

Components of Net Pension Credit	1989	1988	1987
Service cost–benefits earned during the period	**$ 11**	$ 10	$ 11
Interest cost on projected benefit obligation	**22**	20	19
Return on assets–actual	**(55)**	(36)	(23)
–deferred	**28**	11	(1)
Amortization of transitional asset	**(8)**	(8)	(8)
Net pension (credit)	**$ (2)**	$ (3)	$ (2)

Funded Status	December 31, 1989	1988
Actuarial present value of:		
Vested benefit obligations	**$ 211**	$ 193
Accumulated benefit obligation	**$ 221**	$ 202
Projected benefit obligation	**$ 274**	$ 241
Fair market value of plan assets *	**331**	302
Plan assets in excess of projected benefit obligation	**57**	61
Unrecognized prior service cost	**7**	6
Unrecognized net actuarial gain	**(34)**	(31)
Unrecognized transitional asset	**(15)**	(23)
Prepaid pension asset	**$ 15**	$ 13

* Plan assets consist primarily of equity securities and fixed income securities.

Actuarial Assumptions	December 31, 1989	1988	1987
Discount rate	**8.8%**	9.0%	9.0%
Expected long-term rate of return on plan assets	**9.5**	9.5	9.5
Average assumed rate of compensation increase	**7.0**	6.9	6.9

POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension and other supplemental benefits, certain health care benefits are provided for retired employees. Employees become eligible for these benefits if they meet minimum age and service requirements, are eligible for retirement benefits and agree to contribute a portion of the cost. The Corporation has the right to modify these benefits. The cost of providing these retiree health care benefits is recognized as expense when claims are paid. These costs amounted to approximately $4 million in 1989 and $2 million in both 1988 and 1987.

In February 1989, the Financial Accounting Standards Board issued a proposed Statement of Financial Accounting Standards entitled "Employers' Accounting for Postretirement Benefits Other Than Pensions." The proposal would require employers to reflect in their financial statements the estimated cost of postretirement benefits over the period in which they are earned by employees. If issued in final form, this Statement would become effective in 1992 under the current timetable. In anticipation of the proposed requirements, a change to the accrual method of accounting for postretirement health care benefits is planned for beginning of year 1990. Under this plan, the projected after-tax benefit obligation of approximately $50 million to $60 million related to prior service cost will be recognized in net earnings as a cumulative effect of accounting change.

STOCK OPTIONS AND PERFORMANCE SHARES

The Corporation has two stock option plans for key employees. Grants have included stock options, performance shares or both. The options have included Incentive Stock Options, Non-Qualified Stock Options or a combination of both. Twelve months after the grant date, 25% of the majority of options granted become exercisable with another 25% after each succeeding 12 months. These options are cumulatively exercisable and expire no later than 10 years after the date of the grant. In addition, in 1989 there were two special grants which become 100% exercisable five years after the date of the grant. The performance shares pay cash and stock if certain selected performance goals are met at the end of a four-year period.

Compensation expense on performance shares is recorded based on current market price of the Corporation's common stock and the extent to which the performance goals are being met. Expense of $2 million was recorded in both 1989 and 1988 and $1 million in 1987. When employees exercise options, the total option price is credited to Common Stock and Additional Paid-in Capital, and no expense is incurred.

The number of shares of unissued common stock reserved for future grants under all the plans was 4,015,502 at the end of 1989 and 4,239,700 at the end of 1988.

Options and Performance Shares Outstanding

	Options			
	Number of Shares	Price Per Share	Shares Exer-cisable	Perform-ance Shares
1987				
Beginning of year	1,258,685	$ 8.70-$53.19	767,640	85,411
Granted	243,535	30.25 - 53.25		
Cancelled	(91,994)	33.88 - 53.19		
Exercised	(216,077)	8.70 - 53.19		
1988				
Beginning of year	1,194,149	9.31 - 53.25	713,808	116,272
Granted	166,470	35.19 - 40.13		
Cancelled	(75,248)	33.88 - 53.19		
Exercised	(108,038)	9.31 - 39.94		
1989				
Beginning of year	1,177,333	9.97 - 53.25	740,593	138,868
Granted	240,111	46.63 - 62.56		
Cancelled	(55,674)	30.25 - 53.19		
Exercised	(263,885)	9.97 - 53.19		
End of year	1,097,885	$12.36-$62.56	634,249	174,556

REDEEMABLE PREFERRED STOCK

In January 1990, the Corporation issued 438,353 shares of $.01 par value Series B ESOP Convertible Preferred Stock (ESOP preferred stock) at $864.60 per share to a concurrently established leveraged employee stock ownership plan (ESOP). The original issue value of the ESOP preferred stock is guaranteed by the Corporation with each share convertible into 10 shares of the Corporation's common stock. Under certain circumstances, the ESOP preferred stock may be redeemed at the option of the Corporation or the ESOP. The ESOP preferred shares have voting rights equal to the number of shares of common stock into which they are convertible and are entitled to preferential cumulative dividends of $56.20 per share each year.

EMPLOYEE STOCK OWNERSHIP PLAN

An ESOP was established in January 1990 for the purpose of enhancing the Supplemental Retirement and Savings Plan (SRSP) employee benefit program. Employees who meet certain eligibility requirements (based primarily on age and length of employment) can participate in the SRSP and ESOP.

The ESOP borrowed $379 million at a 9% interest rate from the Corporation with the loan maturing in 15 years. This loan is reflected in the Statements of Financial Position as "Loan to ESOP." Proceeds from the loan were used by the ESOP to purchase the 438,353 shares of ESOP preferred stock. These ESOP preferred shares are held by the ESOP in a "suspense account." Commencing April 1990, the Corporation will make contributions to the ESOP trustee which the trustee is required to use to make loan interest and principal payments to the Corporation. Dividends on the ESOP preferred shares will also be used to service the ESOP's debt. With each loan payment, a portion of the ESOP preferred stock is released from the "suspense account" and allocated to employees' accounts in the ESOP.

REPORT OF INDEPENDENT AUDITORS

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of February 3, 1990 and January 28, 1989, and the related consolidated results of operations, cash flows and common shareholders' investment for each of the three years in the period ended February 3, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at February 3, 1990 and January 28, 1989, and the consolidated results of their operations and cash flows for each of the three years in the period ended February 3, 1990, in conformity with generally accepted accounting principles.

Ernst + Young

Minneapolis, Minnesota
March 23, 1990

FINANCIAL COMPARISONS

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Data)	**1989** (a)	1988	1987	1986	1985	1984 (a)	1983	1982	1981	1980	1979
Revenues	**$13,644**	12,204	10,677	9,259	8,255	7,519	6,518	5,286	4,624	3,778	3,175
Cost of retail sales, buying and occupancy	**$ 9,890**	8,980	7,950	6,778	5,977	5,462	4,709	3,774	3,326	2,722	2,255
Selling, publicity and administrative	**$ 2,264**	2,038	1,769	1,538	1,366	1,234	1,080	902	826	690	590
Depreciation	**$ 315**	290	231	183	158	145	123	99	85	62	47
Interest expense, net	**$ 267**	218	152	118	100	98	86	65	47	14	5
Earnings From Continuing Operations Before Income Taxes and Extraordinary Charge	**$ 678**	472	399	494	518	453	416	358	261	230	223
Income taxes	**$ 268**	185	171	239	237	208	189	165	116	103	107
Net Earnings: Continuing	**$ 410**	287	228	255	281	245	227	193	145	127	116
Discontinued (b)	**$ —**	—	—	87 (c)	3	14	19	14	28	20	76 (d)
Consolidated	**$ 410**	287	228	310 (e)	284	259	246	207	173	147	192
Net Earnings Per Share (Fully Diluted):											
Continuing	**$ 5.35**	3.45	2.41	2.62	2.89	2.54	2.35	2.00	1.51	1.33	1.23
Discontinued (b)	**$ —**	—	—	.90 (c)	.03	.14	.19	.15	.30	.21	.80 (d)
Consolidated	**$ 5.35**	3.45	2.41	3.19 (e)	2.92	2.68	2.54	2.15	1.81	1.54	2.03
Per Common Share											
Cash dividend declared	**$ 1.17**	1.04½	.94½	.86	.78½	.69½	.62½	.57½	.52½	.47½	.42½
Common shareholders' investment	**$ 24.73**	23.97	23.15	22.38	20.04	17.90	15.91	13.98	12.41	11.14	10.09
Return on Beginning Equity (Common Shareholders' Investment)											
Continuing	**22.0%**	14.5	10.5	13.1	16.2	15.9	16.8	16.1	13.6	13.2	14.4
Consolidated	**22.0%**	14.5	10.5	15.9	16.3	16.8	18.2	17.3	16.3	15.2	23.8
Capital Expenditures	**$ 603**	681	839	941	403	336	321	268	238	247	202
Consolidated Year-End Financial Position											
Working capital	**$ 912**	978	922	1,193	1,130	973	869	718	509	381	439
Property and equipment	**$ 3,523**	3,486	3,106	2,517	1,770	1,534	1,423	1,237	1,072	927	663
Total assets	**$ 6,684**	6,523	6,076	5,282	4,418	3,800	3,595	2,985	2,555	2,155	1,793
Long-term debt	**$ 2,510**	2,383	1,819	1,377	922	750	751	631	428	317	191
Redeemable preferred stock	**$ 379**	—	—	—	—	—	—	—	—	—	—
Common shareholders' investment	**$ 1,753**	1,861	1,986	2,180	1,948	1,737	1,540	1,349	1,193	1,066	963
Average Common Shares Outstanding (Millions)	**75.9**	83.3	94.8	97.3	97.1	96.9	96.6	96.2	95.8	95.2	94.8
Average Common Shares Outstanding (Millions) – Fully Diluted	**76.6**	83.3	94.8	97.3	97.1	96.9	96.6	96.2	95.8	95.2	94.8

The Financial Comparisons should be read in conjunction with the Financial Statements.
Per-share amounts and shares outstanding reflect two-for-one common stock splits effective July 1983 and November 1981.
(a) Consisted of 53 weeks.
(b) Discontinued operations include discontinued real estate for 1979-1981 and B. Dalton Bookseller for 1979-1986.
(c) Includes the gain on sale of B. Dalton Bookseller.
(d) Includes gains on sale of real estate.
(e) Includes extraordinary charge of $32 million ($.33 per share).

DIRECTORS

Rand V. Araskog
Chairman and Chief Executive Officer, ITT Corporation (diversified multinational company) (1)(3)(5)

Robert A. Burnett
Chairman, Meredith Corporation (media company engaged in printing, publishing, broadcasting and real estate) (1)(2)(3)

Livio D. DeSimone
Executive Vice President, 3M Company (diversified manufacturer) (1)(2)(4)

Roger L. Hale
Chief Executive Officer and President, TENNANT (industrial equipment manufacturer) (1)(3)(5)

Donald J. Hall
Chairman, Hallmark Cards, Incorporated (greeting card manufacturer) (1)(2)(5)

Betty Ruth Hollander
Chairman and Chief Executive Officer, The Omega Group, Inc. (manufacturer of scientific measurement and control devices and systems, technical publishing, and industrial and commercial real estate development) (1)(3)(4)

David T. Kearns
Chairman and Chief Executive Officer, Xerox Corporation (business products and systems, and financial service business) (1)(3)(5)

Kenneth A. Macke
Chairman and Chief Executive Officer (1)

Bruce K. MacLaury
President, The Brookings Institution (research and education organization) (1)(3)(5)

David T. McLaughlin
President and CEO, The Aspen Institute (institute for leadership development) (1)(2)(4)

Mary Patterson McPherson
President, Bryn Mawr College (institute for higher learning) (1)(2)(4)

John A. Rollwagen
Chairman and Chief Executive Officer, Cray Research, Inc. (manufacturer of super computers) (1)(4)(5)

Stephen E. Watson
President

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Responsibility Committee
(5) Finance Committee

OFFICERS

Kenneth A. Macke*
Chairman and Chief Executive Officer

Stephen E. Watson*
President

James T. Hale*
Senior Vice President, General Counsel and Secretary

Willard C. Shull, III*
Senior Vice President

Edwin H. Wingate*
Senior Vice President

Ann H. Barkelew
Vice President

Larry E. Carlson
Vice President

Karol D. Emmerich*
Vice President and Treasurer

L. Fred Hamacher
Vice President

William E. Harder
Vice President and Assistant Secretary

James R. Eckmann
Assistant Treasurer

William P. Hise
Assistant Secretary

OPERATING COMPANY MANAGEMENT

Target
Robert J. Ulrich*
Chairman and Chief Executive Officer

Mervyn's
Walter T. Rossi*
Chairman and Chief Executive Officer

Joseph C. Vesce
President

Dayton Hudson Department Store Company
Marvin W. Goldstein*
Chairman and Chief Executive Officer

*Executive Officers

Target	Retail Sq. Ft. in thousands	No. of stores
Arizona	1,345	13
Arkansas	288	3
California	10,303	99
Colorado	1,853	18
Florida	532	6
Georgia	1,361	14
Illinois	607	7
Indiana	2,529	30
Iowa	1,326	16
Kansas	305	3
Kentucky	529	6
Louisiana	202	2
Michigan	2,371	23
Minnesota	2,571	22
Missouri	841	8
Montana	182	2
Nebraska	402	4
Nevada	501	5
New Mexico	210	2
North Carolina	479	5
North Dakota	386	4
Ohio	79	1
Oklahoma	779	8
Oregon	828	8
South Carolina	297	3
South Dakota	201	2
Tennessee	1,061	11
Texas	5,097	50
Washington	1,130	11
Wisconsin	1,217	11
Wyoming	182	2
	39,994	399

Major Markets:

Los Angeles/Orange County	41
Minneapolis/St. Paul	19
Dallas/Ft. Worth	15
Houston	15
Atlanta	13
San Francisco Bay Area	13
Denver	12
San Diego County	12

Mervyn's	Retail Sq. Ft. in thousands	No. of stores
Arizona	907	11
California	7,707	100
Colorado	850	11
Florida	76	1
Georgia	476	6
Idaho	83	1
Louisiana	538	7
Michigan	918	12
Nevada	423	6
New Mexico	181	2
Oklahoma	270	3
Oregon	503	6
Texas	3,094	38
Utah	531	6
Washington	929	11
	17,486	221

Major Markets:

San Francisco Bay Area	27
Los Angeles/Orange County	22
Dallas/Ft. Worth	12
San Diego County	11
Houston	9
Phoenix	7
Atlanta	6
Detroit	6

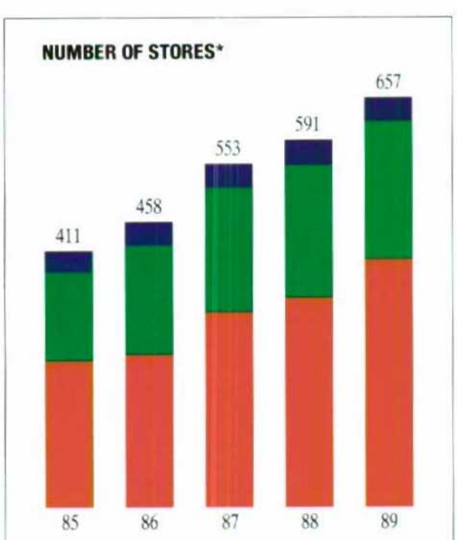
DHDSC*	Retail Sq. Ft. in thousands	No. of stores
Hudson's		
Indiana	246	2
Michigan	4,218	17
Ohio	187	1
Dayton's		
Minnesota	2,558	12
North Dakota	299	3
South Dakota	102	1
Wisconsin	101	1
	7,711	37

Major Markets:

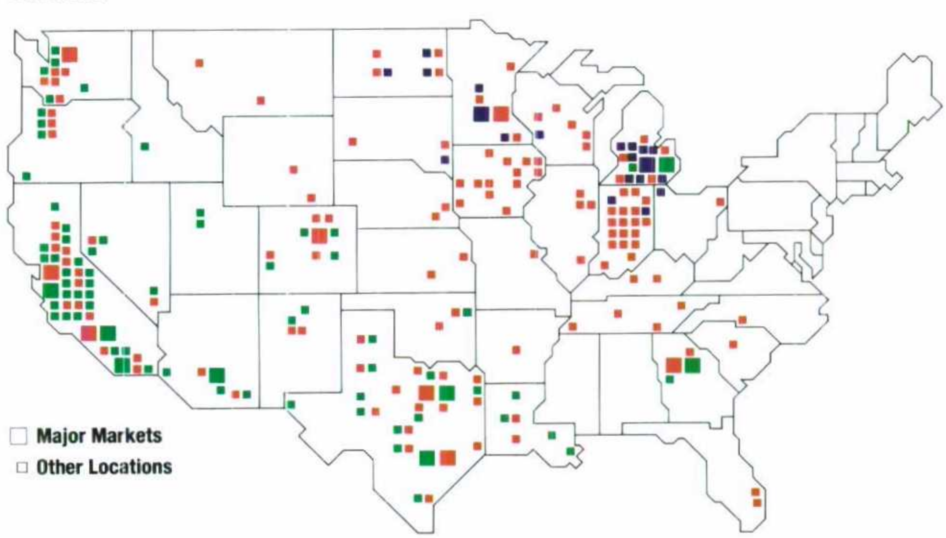
Minneapolis/St. Paul	10
Detroit	9

*Dayton Hudson Department Store Company

Total All Stores 657
Total Retail Square Feet 65,191



LOCATIONS



*Excludes Lechmere.

CORPORATE INFORMATION

CORPORATE OFFICES

777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone: (612) 370-6948

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for 9:30 a.m. Wednesday, May 23, 1990, at The Children's Theatre, Minneapolis Institute of Arts, 2400 Third Avenue South, Minneapolis, Minnesota. The informal reception with management begins at 9:00 a.m. Shareholders unable to attend can listen to the proceedings live between 9:30 and 10:30 a.m., CDT, by dialing (900) 590-7676. A tape of the meeting also will run every hour on the hour, beginning at 1:00 p.m., CDT. The cost to call is $.45 for the first minute and $.35 for each additional minute. (Callers who are not AT&T subscribers must dial the AT&T access code (10288) before dialing the 900 number.)

COMMUNITY INVOLVEMENT

In keeping with its commitment to corporate responsibility, Dayton Hudson annually contributes an amount equal to 5% of its federally taxable income to support its communities. In 1989, we contributed more than $22 million in the communities where we do business. Giving programs are focused in two areas: social action and the arts. For a complete report on 1989 contributions and programs, write to Director and Chair, Dayton Hudson Foundation at the Dayton Hudson corporate offices.

10-K REPORT

A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended February 3, 1990, is available at no charge to shareholders. Write to Director, Investor Relations at the Dayton Hudson corporate offices.

DIVIDEND REINVESTMENT PLAN

The dividend reinvestment plan is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's common stock through automatic dividend reinvestment and voluntary cash purchase. All registered holders of Dayton Hudson common stock may participate. For more information, write to First Chicago Trust Company of New York, P.O. Box 3506, Church Street Station, New York, New York 10008-3506.

TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT

First Chicago Trust Company of New York

TRUSTEE

First Trust National Association

STOCK EXCHANGE LISTINGS

New York Stock Exchange
Pacific Stock Exchange
(Trading Symbol DH)

SHAREHOLDER ASSISTANCE

For assistance regarding individual stock records and transactions, write to Shareholder Relations at the Dayton Hudson corporate offices, or telephone the special shareholder information hotline, (800) 338-8053. You may also contact First Chicago Trust Company of New York, P.O. Box 3981, Church Street Station, New York, New York 10008-3981. Information Center telephone: (212) 791-6422.

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